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SUBJECT: AFTER Q1 FINANCIAL RESULTS, TAJIKS BEG DONORS FOR CASH

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¶1. (SBU) Summary: On May 29 the Tajik Ministry of Finance briefed donors on the country's economic performance over the first quarter of 2009. With declining exports, falling remittances, and a weakening currency, budget revenues are expected to fall 20-25% short of initial projections. Officials rolled out a new "Virtual Fund" to track social sector spending and a plan for quarterly budget updates, the first of which is expected in the next few weeks. Officials said the measures were not simply to appease donors, who demanded social spending not be cut, but were the results of ongoing budget reform efforts. Immediately after saying "We're not trying to fundraise here," a deputy minister bluntly asked donors to contribute to the state budget. Without such assistance, he hinted, Tajikistan would have to turn to China for loans that break commitments to the International Monetary Fund. End summary.

Finance Ministry: Budget Situation Grim

¶2. (U) Minister of Finance Safarali Najmuddinov began a meeting with donors called at short notice for May 29, at a newly-constructed annex at the Tajik Ministry of Finance, by saying that the world financial crisis was hitting Tajikistan harder than expected. Prices and volumes for Tajikistan's two major exports, cotton and aluminum, had fallen dramatically. Remittances from Tajiks working abroad were down 35% from last year, and the Tajik currency, the somoni, had lost a quarter of its value against the dollar in the last five months. As a result, Tajikistan's national budget revenue is expected to be 20-25% lower than projected for FY 2009, and the government was looking for ways to cut spending while meeting basic obligations. As a condition for external assistance, donors had insisted the government maintain 1.87 billion somoni in social sector spending.

Government Rolls Out New Financial Tracking

¶3. (U) The Ministry announced a "Virtual Poverty Fund" created to track social sector expenditures. The fund, developed with technical assistance of a consultant from the London-based

Overseas Development Institute, is not a new account, but a method to identify and monitor selected budget items. In this case, the government proposed including subventions to local governments, subsidies to poor families for utility payments, job training, and wages and capital expenditures in health, education, and other social sectors. If spending in these areas drops below certain key levels, a flag is raised.

¶4. (U) The Finance Ministry also is preparing to release quarterly budget reports to detail key issues such as outturn by sector, Virtual Poverty Fund performance, and local government expenditures. The first budget report will be issued in the next few weeks, but the Ministry provided some initial results:

-- First quarter revenue has been very unclear, so the release of budget funds has been limited to 82% on recurrent items. Capital expenditures have been reduced by over 50%.

-- Social sector expenditures, however, have dropped by only 3%. These savings have been realized through "administrative measures." No program spending has been cut.

-- Subventions to local governments have averaged about 81% of budget allocations. According to Minister Najmuddinov, subventions to local governments for social sector spending have increased to 100% in April.

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Show Us the Money... Or We'll Get it From China

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¶5. (SBU) After the presentation, Deputy Finance Minister (and Presidential son-in-law) Djamoliddin Nuraliev made a blunt appeal to donors for more money. "The alternative," he said in fluent English, "is to go to China or other donors. I don't want to do that. I'm not saying we're going to do that. I don't want to be a diplomat here. We can talk to donors; donors are not diplomats; they are real people. We don't want to borrow commercially. We don't want to break the IMF agreement to contract concessional loans. I hope you understand me and will help as much as you can." He then turned to the assembled donors to ask them directly how much additional budget support they could deliver. Charlotte Adriaen of the European Commission (EC) said Brussels was considering a budget support package, the results of which should be known in the next few weeks. Other donors remained largely silent. Nuraliev ended the meeting by incongruously saying, "We're not trying to fundraise here."

Analysis: What Are Real Effects of Crisis in Tajikistan?

¶6. (SBU) Tajik officials routinely mention the same three factors as effects of the financial crisis: falling cotton and aluminum exports, declining remittances, and the struggling national currency. It is not clear, however, that all these issues should have such a great effect on Tajikistan's economy.

Despite years of forced production, for example, cotton exports accounted for only one-half of one percent of GDP last year. Aluminum has been exported via a tolling arrangement, under which most profits are delivered offshore. Though some of this money presumably finds its way back to Tajikistan in the form of real estate and other purchases made by wealthy shareholders, dropping aluminum prices should not have much of a direct impact on the Tajik economy.

¶7. (SBU) While remittances are off by 33% compared to 2008, they are still 23% above 2007 levels. There is some disagreement about the significance of this year's decline. According to some experts, the 2008 record highs were anomalous: the severe winter crisis inspired many Tajiks overseas to tighten their belts considerably to send money back home. This year's mild winter, by contrast, has not elicited the same desperate response. From this perspective, while the financial crisis is decreasing remittances, overall levels are still impressive. Others point out that this is the first time since records have been kept that remittances have fallen compared to the previous year. Tajik economic growth depends upon steady remittance growth, so this year's performance is a bad omen.

¶8. (SBU) For two years the Tajik somoni had traded very steadily at about 3.4 to the U.S. dollar. Beginning in January 2009, however, the somoni began depreciating, and now stands at about 4.4 to the dollar, after peaking at 4.8 last week. There have been concerns about liquidity: in recent days there have been some difficulties getting cash dollars. The ruble exchange rate is more important for most Tajiks, however, since most of Tajikistan's imports, including food, come from Russia. The somoni has lost almost a third of its value against the ruble in the last four months, from a high of 10 rubles to the somoni in February to the current rate of 6.9. Yet this followed a long period of appreciation in late 2008, so the current exchange rate is exactly the same as it was last summer. As a result, prices for most consumer goods in Tajikistan have actually not risen very much, and in some cases have fallen.

So Why Are Budget Revenues Down?

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¶9. (SBU) If cotton, aluminum, remittances, and currency have not played a major direct role in Tajikistan's economic downturn and budget woes, what is responsible? The answer appears to be that these factors are just parts of the broader problem, which is reduced overall trade. About 71% of Tajikistan's budget revenue comes from customs duties and taxes; with exports down 41% and imports down 11% compared to last year, these have dropped off considerably. Here, the fall in remittances, for example, has an indirect effect, since much of Tajikistan's consumer spending, and thus imports, is funded through money earned by Tajiks abroad.

¶10. (SBU) Comment: While it is indisputable that the financial crisis is having a profound impact on Tajikistan's economy, the lack of government transparency -- particularly the finances of major state-owned enterprises such as the TALCO aluminum plant that remain a secret -- make it difficult to see precisely how the budget has been affected. The Finance Ministry's Virtual Fund and quarterly reports are a step in the right direction, but coupling these efforts with a ham-handed appeal to donors for cash casts some doubt on the government's sincerity. Time

will tell whether these reforms improve transparency or whether they are part of a cynical effort to wring cash out of donors by telling them what they want to hear.

End comment.
JACOBSON